

**Stage 3 in force all day Tuesday**

Due to insufficient reserves and energy, the California Independent System Operator implemented Stage 3 of the Electrical Emergency Plan at 7:30 a.m. Tuesday morning that will be in effect throughout the day. Operating reserves are expected to fall below 1-1/2%.

**Legislative leaders work over weekend to craft solution**

The State was on a three-day weekend, but that didn't stop Governor Gray Davis, Speaker Bob Hertzberg, President pro Temp John Burton, Speaker pro Temp Fred Keeley and other legislative leaders and staff from meeting over the weekend, crafting until late in the night Monday a bill that could be taken up Tuesday morning in the Assembly and sent to the Senate.

AB 1X, by Assemblymember Keeley, establishes the authority for the State of California, through the Department of Water Resources, to move rapidly into the energy market and enter into long-term contracts for electricity with private energy producers. Legislative leaders agreed that there would need to be work to fine tune the bill in the Senate, but stated that the measure sends a message to the financial marketplace and power producers that the state is taking a first and serious step to quickly provide energy stability and reasonable rates for energy consumers.

A significant provision of the legislation requires the Department to negotiate contracts under which the price the State would pay for power would be no more than 5.5 cents per kilowatt hour. Legislators believe that at that price, energy could be provided to consumers without additional rate increases. However, some of the generators of that power indicated Monday they'd be reluctant to sell as cheaply as the state wants.

The Speaker and others planned to personally call the CEOs of energy producers to urge them not to cut off California's supplies under assurances that the State is serious about solving the problem.

**AB 1X  
Keeping The Lights On  
And The Cost Of Power Down**

1. AB 1X authorizes the Department of Water Resources to purchase power and sell it directly to households and businesses.
2. Utilities would receive nothing from this bill other than a fee to deliver power through their transmission lines and for billing customers. There will be a separate line item on utility bills reflecting state charges.
3. Isolating the state charges guarantees that none of the money can be used to bail out the utilities.
4. By requiring DWR to negotiate contracts at no more than 5.5 cents per kilowatt hour, the proposal assures California consumers reliable power at a reasonable price within the current rate structure.
5. California's financial clout places the state in a much stronger position than the utilities to negotiate long-term contracts with power producers at rates much lower than those being offered to the utilities.
6. To the degree that California would still require power, its financial strength will enable it to purchase spot market power at the lowest possible rate.
7. The plan is part of the solution to keep California's public utilities out of bankruptcy by removing the need for them to spend more on power than they can recover. Bankruptcy is bad for consumers because it puts control of the utilities, and their remaining generating assets, in the hands of a judge whose first commitment must be to corporate creditors, not California customers.
8. While this bill does not eliminate the need for further action on other fronts, especially conservation, it is good for California consumers because **it will help keep the lights on and the cost of power down.**

### **SCE downgraded to "junk"**

Moody's Investors Service downgraded Southern California Edison (SCE) and its parent, Edison International (EIX.N), to junk status Tuesday.

The downgrades will trigger default provisions on various of the utility's credit lines and bank loans and came as a result of SCE's temporary suspension of payment of about \$200 million of principal and \$30 million of interest due on notes maturing Tuesday.

### **FERC Approves PG&E's Move To Shield Assets From Credit Woes; Edison takes similar steps**

PG&E Corp. received permission from federal regulators to change its corporate structure, insulating the bulk of its assets from the credit problems of its utility, Pacific Gas & Electric Co.

In a filing with the Securities and Exchange Commission, Southern California Edison said it was taking similar steps to isolate portions of its larger company from its California-based utility.

The utility owes \$2 billion for power it has purchased since November, but it said last week it has only \$500 million left to pay bills and might seek the protection of a bankruptcy court.

PG&E's utility has run up a \$6.6 billion deficit in 2000. Its other enterprises are thriving, though. PG&E's unregulated National Energy Group had revenue of \$11.6 billion in 1999, compared with the utility's \$9.23 billion.

Mike Florio, a senior attorney for the Utility Reform Network, said his group believes PG&E's profitable enterprises should help out the utility, as the utility historically generated the bulk of the parent company's profit. In fact, the utility funded PG&E's diversification drive. As part of the state's 1996 deregulation plan, the utility divested plants that produce 7,000 megawatts in California and used proceeds of roughly \$1.5 billion -- plus \$2 billion from special state-approved bonds -- to pay down debt and buy plants in other states.

### **Edison, PG&E stay close to brink**

Southern California Edison (SCE) has a major wholesale electric power bill coming due Tuesday from the state power exchange but doesn't have the cash on hand to pay for it.

It isn't clear what the consequences would be if Edison doesn't pay its Tuesday bill. But with talks involving state and federal officials as well as utility and generating-company executives continuing, one possibility is that California utilities will be given additional time to pay their outstanding power bills. Any such "forbearance" could have a "direct impact" on Tuesday's due bill, says this person.

A major power supplier, Dynegy Inc. of Houston, threatened Monday to force Southern California

Edison and Pacific Gas & Electric into bankruptcy court unless the utilities pay their bills due this week.

A spokesman for the Pacific Gas & Electric utility unit of PG&E Corp. said his company expects to have enough cash to pay its expenses until early February, when a major power bill comes due. As reported, Edison and PG&E have said they might have to seek bankruptcy-law protection because of unpaid wholesale power bills.

### **Assembly approves two urgent bills aimed at helping solve power**

The state Assembly on Friday approved legislation by Assemblymember Fred Keeley on a 60-9 vote that would overhaul two boards important to the electricity market.

The members of the Power Exchange board and the Independent System Operator board would each be replaced panels of three members appointed by the governor. None of the new appointees could have a financial interest in the electricity market.

The ISO manages the power grid for much of the state. The Power Exchange is the state's power clearinghouse.

Supporters argued that consumer advocates would be likely to keep electricity costs low.

A second bill by Assemblymember John Dutra passed by the Assembly Friday would utilities from selling off any more of their power plants.

### **What Others are Saying**

#### **Jolt of Hope**

Another positive note came out of Sacramento Friday as Davis met with Oregon Gov. John Kitzhaber and Washington Gov. Gary Locke to develop a regional strategy for power conservation and cooperation. California has depended heavily on power from the Northwest in recent months. The three governors called on the Federal Energy Regulatory Commission "in the strongest possible terms" to impose reasonable price controls on wholesale power sales in the West...Hoecker's likely successor under the incoming Bush administration, Curt Hebert, has indicated he would be receptive to the idea of a short-term price cap...

The power crisis is real, and the problems will persist at least until new plants come on line in the next two or three years. However, the state finally has a basic battle plan in place...

Davis may not have had a hand in causing the crisis, but it is largely his to fix. If he removes the immediate threat and steers a steady course to a reliable, reasonably priced electrical supply, he can be a hero. No one, least of all Davis, wants to contemplate the alternative. —*L.A. Times* - 1/14/01